

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

September 10, 2007

The Investment Committee met on Monday, September 10, 2007 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
Robert F. Carlson
John Chiang, represented by Terry McGuire
David Gilb, represented by Debbie Endsley
Bill Lockyer, represented by Steve Coony
Priya Mathur
Tony Oliveira
Mike Quevedo, Jr.
Kurato Shimada
Maeley Tom

Investment Committee members excused: Rob Feckner

AGENDA ITEM 2 – APPROVAL OF AUGUST 2007 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the August 13, 2007 Open Session minutes be approved as presented.

Ms. Mathur abstained.

AGENDA ITEM 3 – POLICY SUBCOMMITTEE REPORT

Ms. Mathur, Policy Subcommittee Chair, presented the August 10, 2007 Subcommittee Summary report. The Subcommittee approved the revised Asset Allocation Strategy Policy with additional edits and directed staff to consult with Bill Sharpe regarding language about the impact of asset allocation on performance, and to have the Chief Actuary review and comment on the policy.

Anne Stausboll, Chief Operating Investment Officer, and Rick Roth, Senior Portfolio Manager, provided an update regarding follow up review and revisions.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the revised Asset Allocation Strategy Policy as presented.

On **MOTION** by the Subcommittee, the Investment Committee approved the revised Global Equity Sub-Asset Class Allocation Ranges Policy.

The next Policy Subcommittee meeting is scheduled for October 12, 2007.

AGENDA ITEM 4a – TOTAL FUND, CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the Executive Summary of the Investment Performance of the CalPERS Total Fund, Affiliate Funds, Legislators' Fund, Annuitants Healthcare Plan, and the Supplemental Income Plans for the quarter ending June 30, 2007. Performance for each fund and each asset class was reviewed. It was noted that CalPERS generated a total fund return of 4.7% for the quarter and 18.8% for the year. The total fund composite outperformed its strategic policy mainly due to the global equity segment as the international equity composite was above the total fund policy index.

Mike Moy, Pension Consulting Alliance, provided a private equity update including remarks regarding possible impact to the program resulting from Congressional hearings on the taxation of private equity manager compensation under limited partnership agreements, the sub-prime home mortgage credit crunch, and reduction in available debt financing resulting in lower valuation of acquisition targets.

Nori Gerardo Lietz, PCA Real Estate Advisors, provided a real estate update including comments regarding limited partnership taxation issues, delinquency in the sub-prime sector, decline of the REIT market sector, and possible short-term negative impact to the real estate program.

The Committee accepted the information reports.

AGENDA ITEM 4b – TOTAL FUND, Approval of Infrastructure Investments Pilot Program

Russell Read, Chief Investment Officer, provided introductory background remarks regarding the proposed creation of an Inflation Linked Asset Class and an Infrastructure Program component, including overall strategic perspective, rationale for asset class reclassification, and implementation timelines.

There was a lengthy discussion regarding:

- Precedent for establishing a new asset class
- Sequence and timing of approvals for a pilot program, policy, and asset allocation
- Reclassification considerations
- Transition plan for staffing, accountability and incentive compensation
- Interim and long-term resources needed
- Impact to strategic plan should the pilot approvals be postponed

Ted Eliopoulos, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, and Allan Emkin and Judy Chambers, Pension Consulting Alliance, were available to respond to questions from the Committee.

Infrastructure is one of the four components of the proposed Inflation-Linked Asset Class pilot program. The PCA infrastructure program investment and research report presented at the July 2007 Offsite meeting was provided again for the Committee's information. Staff and Wilshire Associates' recommendations regarding approval of the pilot program were presented. The pilot program will begin upon Investment Committee approval and end upon approval of a permanent Infrastructure Program, which is expected to be no later than June 30, 2008.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve an Infrastructure Pilot Program, which would allow, starting September 30, 2007, the reclassification of existing investments. In addition, the Committee approved the making of new commitments, subject to the Investment Committee approval of a governing policy for the program, as well as the development of appropriate investment procedures and personnel structures including performance and compensation.

AGENDA ITEM 4c – TOTAL FUND, Approval of Inflation Linked Asset Class Pilot Program

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

As a follow up to the June 2007 Committee presentation regarding the merits and proposed design of an Inflation Linked Asset Class, staff provided additional rationale and budgetary information. In October an Inflation Linked Asset Class policy will be presented, including infrastructure, commodities, inflation linked bonds and forestland components. Following the November Asset/Liability Management Workshop, allocations to all asset classes, including the Inflation Linked Asset Class, will be recommended at the December Investment Committee meeting.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve an Inflation Linked Asset Class Pilot Program which would allow, starting September 30, 2007, the reclassification of existing investments. In addition, the Committee approved the making of new commitments, subject to Investment Committee approval of governing policy for the asset class and sub-asset classes, and development of appropriate investment procedures and personnel structures including a clear articulation of responsibility, authority, and reporting, as well as performance and compensation.

The meeting recessed from 11:10 to 11:25 a.m.

AGENDA ITEM 5a – REAL ESTATE, Strategic Plan

Russell Read, Chief Investment Officer, Ted Eliopoulos, Senior Investment Officer, Al Fernandez, Senior Portfolio Manager, and Randy Pottle, Senior Portfolio Manager, presented the item.

At the August 2007 meeting, PCA's proposed Real Estate Strategic Plan was presented for Committee review and comment. The revised plan was presented and staff highlighted key elements, an implementation plan, and recommendations.

Nori Gerardo Lietz, PCA Real Estate Advisors, concurred with staff recommendations and was available to respond to questions from the Committee.

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to approve the key Strategic Plan recommendations enumerated in the agenda item, with two additional items – revised delegations and an annual report on Real Estate and emerging markets. The approval is subject to subsequent Committee actions described in the implementation plan.

The Committee also approved the elimination, effective immediately, of the existing 25% restriction on commingled fund investments in non-permissible countries per CalPERS' Permissible Equity Markets list.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM,

There were no items to report.

AGENDA ITEM 7a – GLOBAL FIXED INCOME, Clerical Error Correction – Dollar-Denominated Fixed Income Program Policy

Curtis Ishii, Senior Investment Officer, explained that through clerical error in 2005 an incorrect version of the policy approved by the Policy Subcommittee was presented to and approved by the Investment Committee.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to correct the record to clarify that the Dollar-Denominated Fixed Income Policy, presented as agenda item Attachment A, is the policy the Committee intended to approve at its October 17, 2005 meeting.

AGENDA ITEM 8a - GLOBAL EQUITY, Domestic Equity Manager Annual Review

Christy Wood, Senior Investment Officer, and Derek Hayamizu, Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Staff highlighted the performance of the managers and reported that the external domestic equity manager program, excluding the Dynamic Completion Fund, for fiscal year ending June 30, 2007 was slightly negative. A follow-up agenda item outlining plans to improve performance will be presented to the Committee at a later date.

All managers in this program have one year renewable contracts contingent upon the Investment Committee's annual approval.

At this point, Mr. McGuire, representing the State Controller's Office, was not present.

On **MOTION** by Ms. Endsley, **SECONDED** and **CARRIED** to approve contract renewals for CalPERS' seven active managers, three long/short managers, and nine enhanced index managers. The managers are:

Active Managers

Growth Style Managers
Geewax, Terker & Company
Jacobs Levy
Marvin & Palmer
Turner Investment Partners

Value Style Managers
AllianceBernstein L.P.
The Boston Company
Pzena Investment Management

Long/Short 130/30 Managers

Analytic Investors

Quantitative Management Associates
State Street Global Advisors

Enhanced Index Managers

Atlantic Asset Management INTECH

Barclay's Global Investors Smith Breeden Franklin Portfolio Associates T. Rowe Price

Golden Capital Management Western Asset Management Company

Goldman Sachs Asset Management

AGENDA ITEM 8b – GLOBAL EQUITY, International Equity Manager Annual Review

Christy Wood, Senior Investment Officer, and Derek Hayamizu, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff highlighted the performance of the managers and reported that the external international equity manager program for the fiscal year ending June 30, 2007 was slightly negative.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve contract renewals of CalPERS' 20 International manager for a period of one year. The managers are:

Active All-World ex-U.S. Equity Managers

Acadian Baillie Gifford

AllianceBernstein (Growth) Grantham, Mayo, Van Otterloo

AllianceBernstein (Value)

Arrowstreet Capital

New Star

Robeco USA

Enhanced Index Developed-Markets Equity Managers

AQR Capital Management Baring International

Barclays Global Investors Quantitative Management Associates

Active European Equity Managers

AXA Rosenberg Capital Guardian

Active Pacific Basin Equity Manager

Nomura Asset Management

Active Emerging Markets Equity Managers

AllianceBernstein Genesis Asset Managers
Batterymarch Pictet Asset Management

Dimensional Fund Advisors

AGENDA ITEM 8c - GLOBAL EQUITY, Corporate Governance Update

Russell Read, Chief Investment Officer, highlighted a September 2007 *Directorship* article.

Dennis Johnson, Senior Portfolio Manager, provided an overview of the upcoming fall Council of Institutional Investors (CII) meeting agenda.

SEC Proposed Rules on Proxy Access for Director Elections

Peter Mixon, General Counsel, highlighted proposed CalPERS' comments to the SEC relevant to rule proposals about (1) shareowner proposals and (2) shareowner proposals relating to the election of directors, and outlined strategy to advance CalPERS' corporate governance principles.

AGENDA ITEM 9a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of July 31, 2007, was approximately \$246.7 billion and the total book value was approximately \$194.7 billion.

AGENDA ITEM 9b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

AGENDA ITEM 10 - DRAFT OCTOBER 2007 AGENDA

The Committee accepted the proposed October 15, 2007 agenda.

It was decided that proposed new and revised policies relevant to the Inflation Linked Asset Cass and the component programs will go directly to the Investment Committee for review at the October meeting.

AGENDA ITEM 11 – PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 12:15 p.m.

The next Investment Committee meeting is scheduled for October 15, 2007 in Fresno, California.

FRED BUENROSTRO
Chief Executive Officer